BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 97-006-G - ORDER NO. 97-920

NOVEMBER 24, 1997

IN RE:	Annual Review of Purchased Gas Adjustment and Gas Purchasing Policies of South Carolina Electric & Gas Company	))))	ORDER APPROVING COST OF GAS AND ENVIRONMENTAL CLEAN-UP COSTS

This matter comes before the Public Service Commission of South Carolina (the Commission) for the Annual Review of the Purchased Gas Adjustment (PGA) and the Gas Purchasing Policies of South Carolina Electric & Gas Company (SCE&G or the Company). In addition, pursuant to Order No. 94-1117, dated October 27, 1994, in Docket No. 94-008-G, the Commission considered the collection of environmental clean-up costs for the period under review.

By letter, the Commission's Executive Director instructed the Company to publish a prepared notice concerning the Annual Review of the PGA and the Gas Purchasing Policies, one time, in a newspaper of general circulation in the area affected by the review. The Notice indicated the nature of the review and advised all interested parties of the manner and time in which to file appropriate pleadings for participation in the proceeding. The Company was instructed to directly notify all of its customers affected by the review of the PGA. The Company submitted affidavits indicating that it had complied with these instructions. A Petition to Intervene was filed by the Consumer Advocate for the State of South Carolina (the Consumer Advocate).

A hearing on the Annual Review was held on October 16, 1997, at 10:30 a.m. with the Honorable Guy Butler, Chairman, presiding. SCE&G was represented by Steve A. Matthews, Esquire, and Catherine D. Taylor, Esquire. The Consumer Advocate was represented by Elliott F. Elam, Jr., Esquire; and the Commission Staff was represented by F. David Butler, General Counsel. At the hearing, the Company presented the testimony of Warren A. Darby and Carey M. Flynt. The Commission Staff presented the testimony of William O. Richardson and D. Joe Maready.

Warren A. Darby, Senior Vice President, Gas Operations of SCE&G, presented testimony explaining the gas purchasing policies of SCE&G and the importance of the Industrial Sales Program (ISP). Darby further testified regarding the Company's recovery of costs related to the environmental liability resulting from the clean-up of dismantled manufactured gas properties (MGP).

In his testimony, Darby discussed that SCE&G obtained all of its natural gas requirements under contract with South Carolina Pipeline Corporation (SCPC) under SCPC Tariff DS-1, DISS-1, and the ISP Rider (ISP-R), all of which are approved by the Commission. To serve its approximately 247,000 customers in thirty (30) counties, SCE&G receives its gas from SCPC through 160 delivery points where the gas is metered and billed on a monthly basis. Darby further indicated that SCE&G does not own or operate a pipeline system connecting these various delivery points. Darby noted that SCE&G relies on SCPC as a merchant of gas for several reasons: 1) SCPC, according to Darby, has knowledgeable staff in place to fulfill this function; 2) SCPC aggregates demand for approximately 15 sale-for-resale distribution companies and, therefore, is a strong participant in gas markets; and 3) as an aggregator of demand, SCPC has superior ability to deal with marketing and supply by purchasing under multiple contracts.

In regards to the Industrial Sales Program, Darby testified that the program has been subject to periodic review and continuation by the Commission. Darby explained that, under the program, customers with contracts containing a competitive fuel rate advise SCE&G several days prior to the beginning of the billing period of the as-fired (burner tip) cost of their alternative fuel. SCE&G subtracts its mark-up and then makes an allowance for system losses and revenue taxes to determine the maximum price it can pay its supplier for the volume of gas required to purchase and resell to the customer invoking the competitive fuel rate. To the extent that the Company's supplier has ISP-R volumes available, the Company purchases these volumes required for all competitively priced customers. Darby testified that any margins collected from ISP-R sales above the contracted margins are credited to the customers as a credit to SCE&G's average cost of gas (WACOG). Darby stated that the ISP-R has allowed the company to compete effectively with customer alternate fuels. Darby also commented that, during the period of September 1996 through August 1997, the elimination of the ISP-R program would have resulted in the loss of all ISP-R sales in nine months and a partial loss of ISP-R sales in three months for SCE&G.

Darby also related several steps by which SCE&G has attempted to ensure a reliable gas supply to all of its customers. SCE&G has estimated its 1997-1998 firm peak design day for both "typical" and "extreme" weather conditions and has appropriately contracted with SCPC for contract demand and further operates four propane air plants for additional capacity.

Overall, Darby stated that SCE&G's reliance on SCPC as a merchant reduces administrative costs, bolsters effective market power, and increases system reliability in an increasingly challenging deregulated market. Darby stated that SCE&G's gas purchasing and gas supply practices are prudent, reasonable, and provide substantial benefits to the customer by striking a reasonable balance between reliable service and low cost.

Darby also updated the Commission in regards to the Company's recovery of costs related to the environmental liability resulting from clean-up of the MGPs. In Order 96-740, the Commission found that the Company's payment of $26,000,000 to the City of Charleston for settlement of claims related to Calhoun Park Site contamination was prudent and should be collected through the MGP-ECC. In that Order, the Company was instructed to diligently pursue outstanding insurance settlements. Darby reported that the Company had obtained by last year's review net insurance settlements in the amount of $6,197,947. Additionally, Darby stated that the Company has continued to diligently pursue settlements and has recovered environmental clean-up costs from other insurers since the last review in the amount of $5,980,555. Therefore, the total net amount of the insurance settlements reported in 1996 and in this review is $12,178,502.

Carey M. Flynt testified and provided cost of gas data for the period September 1996 through August 1997, the historical period under review in this proceeding. She also provided computations for the projected costs of gas per therm for the period November 1997 through October 1998, and further recommended a cost of gas component to be included in the Company's firm published tariffs beginning with the first billing cycle for November 1997. Ms. Flynt recommended a PGA of $0.48182 per therm, representing a decrease of $0.03078 per therm from the current PGA of $0.51260 per therm allowed by this Commission pursuant to an "out-of-period change" in Order No. 96-839.

Ms. Flynt also presented testimony regarding the Company's method of recovery for Manufactured Gas Plant-Environmental Clean-Up Costs (MGP-ECC). Flynt provided discussion on the MGP-ECC factor on a per therm basis for the period November 1997 through October 1998. This calculated figure amounted to $0.011 per therm, representing an increase of $0.005 per therm from the amount approved by this Commission for the prior year in Order No. 96-740. Flynt testified that the Company is seeking recovery of an unamortized balance of $24,510,586. This figure represents the sum of the original 1994 estimate of liability of $19,300,000, plus the amount of $26,000,000 for the Charleston settlement (approved as prudent in Commission Order No. 96-740 and included for the first time this year), less the accumulated amortization of $8,610,912, and net insurance settlement proceeds of $12,178,502. The recommended ECC recovery factor was calculated to recover the unamortized balance over the remainder of the originally requested 10-year amortization period.

Flynt testified that the Company's currently approved rate for the cost of gas is 51.260 cents per therm. Flynt testified that the Company over-collected $363,991 for the period under review. Flynt noted that the balance at October 31, 1997, is forecasted to be an under-collection of $1,952,912.

Flynt also testified about the Company's projected gas cost for the period November 1997 through October 1998. Flynt then went on to recommend that the Commission approve a rate of 48.182 cents per therm in the Company's firm rate tariffs. This recommended rate would cause a decrease to the Company's firm rate tariffs of 3.078 cents per therm. In combination with the .5 cent per therm increase to the ECC recovery factor, this will result in a net reduction to the consumer of 2.578 cents per therm.

The Commission Staff presented the testimony of D. Joe Maready and William O. Richardson. Maready testified as to various under-recoveries experienced by SCE&G in its recovery of gas costs through the PGA. He also reviewed the collection of the Environmental Clean-Up Costs. In his testimony, Maready explained his review of SCE&G's collection of settlement and insurance proceeds utilized to offset the environmental cleanup costs. As well, Maready stated that Staff had appropriately reviewed the expenditures by the Company for the environmental cleanup costs. Richardson discussed SCE&G's derivation of base gas cost projections, as well as this Commission's procedures for ongoing review of gas costs. He discussed the impact of the prior under-collection of gas costs and the impact of the ECC recovery. Richardson also testified regarding SCE&G's gas supply purchases from SCPC. He stated that his observations of SCE&G's gas purchasing policies indicate that the Company receives adequate supplies of firm gas to meet its captive customers' needs, and that the policies are prudent with regard to its purchase of gas supplies from SCPC. Also, according to Richardson, SCE&G is able to compete with industrial alternate fuel prices through the operation of the ISP-R. Richardson stated that it was the Utilities Department's opinion that the ISP-R has provided SCE&G with the opportunity to retain the industrial gas loads in competition with alternate fuels.

FINDINGS AND CONCLUSIONS

Based on the evidence in the record, the Commission makes the following findings and conclusions:

SCE&G testified that its forecasted cost of gas was based on the latest historic actual period of the 12 months ending August 1997. During this historical actual period, adjustments were made for known and measurable changes, such as changes to rates from SCE&G's intrastate supplier and tariff changes from interstate suppliers to its intrastate supplier that are in effect or scheduled to be in effect during the forecasted period November 1997 through October 1998. The Company made other normalizing adjustments to the historic period in developing the forecasted price of natural gas to its customers. Based on this testimony, the testimony of Staff witnesses Maready and Richardson, and the record as a whole, the Commission finds that:

(a) the cost of gas of 48.182 cents per therm is appropriate and should be incorporated in SCE&G's firm tariff rates through October 1998, unless an out-of-period adjustment is found necessary due to changes in the Company's gas costs;

(b) the Commission believes that, based on the testimony, the Company should also collect an additional $.011 per therm in order to recover the ECC as testified to by the Company witnesses. The Commission also believes that a yearly review as is provided by passing this cost through the PGA is helpful and is in the public interest;

(c) the ISP-R Program should be continued, based on the fact that it allows the Company to compete successfully for the industrial customers against alternative fuels; and

(d) a review of the testimony of record shows that SCE&G's purchasing practices are prudent, and that SCE&G's gas supplies are adequate to meet the requirements of firm customers.

IT IS THEREFORE ORDERED THAT:

1. The Purchased Gas Adjustment of South Carolina Electric and Gas Company is hereby approved.

2. The gas cost of 48.182 cents per therm shall be effective beginning with the first billing cycle in November 1997.

3. In addition to this figure, the Company will add a factor of $0.011 per therm in the PGA for environmental clean-up costs. Staff shall review and audit the Company's collection of these additional monies as part of Staff's yearly review of the Company's PGA and Gas Purchasing Policies.

4. The tariffs and rate schedules shall be filed reflecting the findings herein within five (5) days of the receipt of this Order by the Company.

5. For the period September 1996 through August 1997, SCE&G's gas purchasing practices and the recovery of its gas costs were prudent and undertaken in accordance with tariffs and rate schedules approved by the Commission for South

Carolina Pipeline Corporation and SCE&G. The current ISP-R program shall be continued.

6. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

Guy Butler
Chairman

ATTEST:

Mary E. Walsh
Deputy Executive Director

(SEAL)